MINUTES
Strategic Committee on Postsecondary Education
September 18, 2005

The Strategic Committee on Postsecondary Education met September 18, 2005, at the Louisville Downtown Marriott in Louisville Kentucky.

ROLL CALL

The following SCOPE members were present: Peggy Bertlesman, Stan Cave, Brad Cowgill, Bob DeWeese, Danny Ford, Virginia Fox, Ron Greenberg, Brett Guthrie, John Hall, Allyson Handley, Jeffrey Hoover, Tom Layzell, Harry Moberly, Jody Richards and, Joan Taylor.

APPROVAL OF JUNE 1, 2005 MINUTES

The minutes of the June 1, 2005, meeting were adopted.

REMARKS FROM STANLEY IKENBERRY, Regent Professor And President Emeritus, At The University Of Illinois At Urbana-Champaign: National Initiative To Engage The American Public

Dr. Ikenberry said he hoped Kentucky was proud of the work it has done so far with Kentucky's plan and the five questions outlined in the public agenda. The work that Kentucky is focused on can be looked at from a national and global perspective. He continued to say that the reality is that the quality of education, access to education, and lifelong learning are truly more important in this country for the workplace, quality of life and the future, than ever been before. His argument was not only about the economic benefits for any particular individual, but also about building the quality of life in communities, and the adaptiveness and strength in the economy that this country is going to need going forward on a global scale. Dr. Ikenberry stated that Kentucky will not answer 'yes' to all the five questions unless everyone is on board and the lines of communication are open, and universities and colleges are involved with the public in an active conversation and responding to their questions. Dr. Ikenberry had at an earlier meeting, invited the university presidents, chancellors, trustees, faculty and others to become part of a three-year initiative being launched by the American Council on Education, called *Solutions for our Future.*

COUNCIL CHAIR'S REPORT: COUNCIL ACTION PLAN 2005-06 PRIORITY INITIATIVES

Mr. Greenberg said the members of the Council are keenly aware of the challenges facing postsecondary education and have discussed the needs of consumers and providers. Mr. Greenberg stressed the fact that with globalization there is a new challenge not only for Kentucky but for the rest of the United States. Kentucky needs to add some additional resources, along with additional accountability measures and benchmarks to its postsecondary education system. Mr. Greenberg stressed a greater need for research and economic development as outlined in the priority initiatives. Kentucky is competing on a global stage, therefore, it has to step up its efforts in these areas. Mr. Greenberg emphasized that Kentucky has to focus more on the quality of education thus reducing the amount of money spent on postsecondary remediation. Mr. Greenberg will call on SCOPE members and members of the Council on Postsecondary Education to come up with a more focused agenda by the summer of 2006 to present a more comprehensive agenda to the 2007 legislature.

Mr. Greenberg called upon the media to help in changing the culture in postsecondary education. As a result of the larger agenda, Council members have identified a list of initiatives that focus on funding, quality, accountability, economic development, and board membership and participation. Council members think by highlighting these areas, they will be able to bring back to the executive and legislative branches of government a very crystallized focus on what needs to be done as the Council moves forward. This will allow Council members to recommend policies they will be actively developing over the next several months and meet with SCOPE members individually and collectively to receive input on the development of these new policies.

KENTUCKY AFFORDABILITY STUDY FINAL REPORT – Dr. John Lee, President JBL Associates, inc. and Dr. Scott Swail, President, Education Policy Initiative

Dr. Lee stated that Kentucky is not alone in grappling with the question of affordability. The reason for this concern is that college costs are increasing faster than families are able to pay and are, for the most part, outstripping the resources of student aid programs. Measuring affordability includes the following considerations:

1. The student's and his or her family's ability to pay for college;
2. The tuition and other costs associated with attending college; and
3. The amount of the student financial aid that is available to help students pay for their education.

Dr. Lee continued to say that all three must be considered in any analysis of affordability. The most meaningful measure of affordability is net price, which is the amount the student and the family have to pay after grant aid is distributed. The majority of full-time students in Kentucky receive grant aid, so a minority actually pays the published price.

Dr. Lee said that by the measures used in their study, most full-time students in Kentucky could pay for college without undue effort. The exception to this is the independent student. He said that they did not have direct evidence as to whether students have been dissuaded from enrolling because college is unaffordable or they have dropped out of college because of affordability issues.

On the question affordability and equity in Kentucky,
Dr. Lee informed the committee that by most measures, including data for those Kentucky students who completed the Free Application for Federal Student Aid (FAFSA), Kentucky higher education is within

reasonable range of affordability for most full-time students. The biggest exception to this is lower-income independent students who do not receive as much state aid as dependent students and face a higher net price, which requires more borrowing. Independent student are generally over 24 years of age; their need for student aid is calculated based on their income not the income of their parents. Some dependent students in the lowest income group attending four-year public or private institutions are also at the margins of affordability. Community colleges are well within the affordable range for students in all income groups with the exception of the lowest-income independent students.

Kentucky students do not appear to have an unreasonable debt load. However, affordability gaps exist by institutional, socio-economic, demographic, or regional variations. Populations with the greatest financial need are the independent students and African American students. These affordability gaps affect access, success and completion. Affordability is only part of the answer. Having adequate resources to pay for college is necessary, but is not by itself a sufficient solution. Other solutions added include reducing bureaucratic, academic, and geographic barriers.

Dr. Lee said in regards to student retention, it is important that students and families have a clear understanding of the eventual price of attendance that they will face. Institutions should make every effort to ensure that students apply for aid and colleges should make every effort to find on-campus employment opportunities for their students. Also, efforts should be made to moderate tuition increases once a student enrolls.

Dr. Swail proposed a number of program changes to financial aid programs that Kentucky could make to improve access, success, and completion:

- Kentucky should find a systemic way to connect decisions about tuition with support for student aid programs
- Include older students in the KEES program
- Stabilize tuition

Dr. Swail also said that Minnesota had a Design for Shared Responsibility Program that Kentucky could look at as an innovative approach to improve affordability. This approach provides a systemic link to decisions about tuition and student aid with consideration for federal student aid programs and the ability of students and their families to pay for college. It has provisions for distributing financial aid to independent and part-time students.

Future study recommendations include a systemic use of data including an improved data system which would be able to measure access, keep financial data in the student unit record system, develop an affordability index and monitor changes in affordability.

Mr. Greenberg said that the Council on Postsecondary Education has accepted the report and will use the information therein.

BUDGET PLANNING REPORT – BRADFORD COWGILL, STATE BUDGET DIRECTOR

Mr. Cowgill reported that the 2005 fiscal year lapses were remarkably high. The actual General Fund lapse was $67 million, this included a $15 million General Fund lapse budgeted by the General Assembly. The Road Fund lapse was $22 million. The FY05 General Fund revenue was up $667 million (9.6%) over FY04. General Fund revenue rose $195 million over projections.
The reasons that the General Fund rose faster than expected over projections were due to:

- Stronger uptick in the Kentucky economy than predicted which is consistent with other state and national trends
- Consumer confidence in Kentucky has enhanced our business and governmental climate
- Business signals sent through tax modernization may have played a small role in the strengthening of the economy but implementation had just began

Mr. Cowgill explained that tax modernization did not have a large effect on FY05 receipts mostly because the Jobs for Kentucky program (J4K) had not fully kicked in, but with three qualifications:

- New cigarette tax revenue, $16.6 million more due to cigarette tax changes
- Individual income tax receipts fell in June
- Mixed corporate income tax receipts

The General Fund surplus on June 30, 2005, was $214 million and the Governor is permitted to choose among these five options in his surplus spending plan authority:

- Budget Reserve Trust Fund – up to 1.5% of projected FY06 General Fund revenue
- Increased classroom teacher salaries to the average level of contiguous states
- Additional funding to P-16 necessary to return base appropriations to the pre- Budget Reduction/Stability Initiative levels
- Medicaid – limited to an amount certified as needed by the Secretary of Health and Family Services and approved by the State Budget Director.
- Necessary government expenses – including judgment liabilities

not funded by the General Assembly.

Mr. Cowgill also reported on the issue of financial support for higher education. The General Fund appropriations for higher education were $1,262 million for FY06, a 12 percent increase over FY04 levels. Institutional budgets in FY06 increased $81.6 million and student financial aid funding from state funds will be $195 million for FY06. $625 million in total bond funds for capital projects, includes $395 million in General Fund supported bonds (26 projects) and $230 million in agency bonds (18 projects). The budget also outlines a one cent cigarette surtax for cancer research, split equally between the two research institutions and matched by external funds.

Mr. Cowgill said that budget problems have shifted from revenue insufficiency to unsustainable expenditure patterns. The big four major expenditure areas (Medicaid, health insurance, pensions and corrections) are competing with everything else in the budget, challenging funds for education and economic initiatives. The bad news for FY06 includes expenditure pressures from Medicaid, which is way out of balance, an increasing prison population, (but at a lower rate) and state employee health insurance costs. Mr. Cowgill also addressed the possible positive and negative impacts of hurricane Katrina on Kentucky's economy.

Mr. Cowgill said that structural imbalance means current conditions can not be feasibly extended into the future. On the revenue side, FY07 slides down the back side of J4K 'bump' in FY06. Kentucky is placing a heavy reliance on restricted fund transfers. Depending on the use of the anticipated FY06 revenue, the big cash carry forward into FY06 may not be available in FY07. On the spending side, unsustainable rates of increase in cost of Medicaid and state health insurance, a shift of debt service from half year to full year, and no appropriations for necessary government expenses present major fiscal challenges.

ACCOMPLISHING THE PUBLIC AGENDA – DR. THOMAS LAYZELL, PRESIDENT, CPE

Dr. Layzell started by acknowledging that there was a convergence of realities between the fiscal realities that Mr. Cowgill presented and the implicit and explicit realities illustrated in the affordability study. Dr. Layzell said that educational attainment lies at the heart of what House Bill 1 and Senate Bill 1were set out to accomplish. In a recognition that the material well-being of the people of Kentucky will depend in large part on the development of a well-educated and highly trained workforce that will strengthen the economy. Dr. Layzell said to meet the goals of House Bill 1 and to be at the projected national average of educational attainment, the number of college educated adults needs to double from roughly 400,000 to 800,000 by the year 2020. He said it is not only a function of degree production at the universities, it is also keeping students in Kentucky who graduate from Kentucky universities, bringing people in who have those credentials and keeping them here, and having the jobs that attract both Kentucky graduates and people from out of state. It is a complicated set of interactions, but that is really what House Bill 1 is about—to improve the quality of life and improve the Kentucky economy. This can be only achieved through increased levels of educational attainment and is the only way that Kentucky's economy is going to be strengthened. Dr. Layzell said that meeting the attainment challenge requires:

- Staying focused on the public agenda, including effective stewardship, clear priorities, and strong accountability systems in postsecondary education
- Strong partnerships between education, legislative, community, civic, and economic development partners
- Sustained, adequate resources

CONFERENCE OF PRESIDENTS REPORT – DR. JAMES RAMSEY, PRESIDENT UNIVERSITY OF LOUISVILLE

Dr. Ramsey expressed appreciation on behalf of all the universities and presidents to the Executive and Legislative branches for their support in the last session. He pledged that the presidents understand that the upcoming 2006 budget session will be a tough one and they will work together with the Council to keep the reform moving forward. Dr. Ramsey reported that the campus action plans that were developed were well received by the institutions and what was needed was an appropriate and credible funding model which is currently being worked on under the leadership of the Council. He said that a number of issues are very important to the presidents such as the "Damron Bill", capital replacement funds and agency bonds to help support critical projects. He indicated the presidents will work with the Council to gain support for these initiatives.

ADJOURNMENT

The meeting adjourned at 6 p.m.